REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

02-2020

Dear readers,

After 34 multifaceted and successful years at the NORD/LB Group, I am shifting my activities from Hanover to Hamburg, where I will be taking on new challenges at DZ HYP starting in January 2021. Many thanks go out to all of you for all your support of the Deutsche Hypo REECOX over the years. My fellow Member of the Board of Managing Directors Andreas Rehfus will be taking my place. As part of the shift, he will also be taking over the responsibility for commenting on the Deutsche Hypo REECOX. I wish you all the best in the future!

Kind regards,
Sabine Barthauer

Dear readers,

The coronavirus pandemic is a huge challenge for the real estate sector, as in other areas. After a significant decline in the Euro Score in the first quarter, an increasingly positive trend was noted at the end of the second quarter. Still, it is too early to make solid forecasts about the long-term effects. It remains to be seen where things will go from here.

Kind regards,
Andreas Rehfus

DEUTSCHE HYPO EURO-SCORE

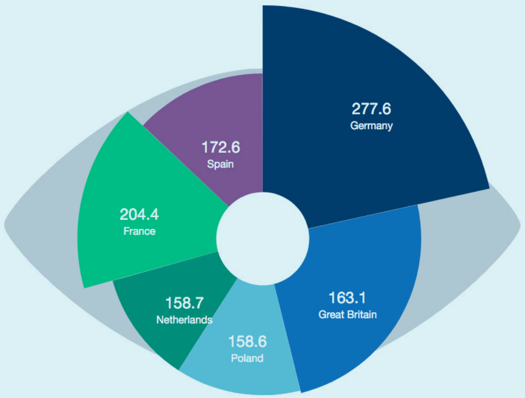
204.6

EURO SCORE DOWN OVERALL – POSITIVE TREND AT END OF THE QUARTER

In the first quarter of 2020, the Euro Score was dominated by the effects of the coronavirus pandemic, posting a decline of 9.4 % in all – the sharpest drop since the 2008 financial crisis. Across almost all of the countries monitored by REECOX, the second quarter started out in April with the steepest decline. Germany was an exception, having passed the peak back in March. Overall, the Euro Score lost 10.7 % that month. There was a modest positive trend in May, which saw a gain of 2.4 %, followed by a marked improvement in the overall economy in June, with growth at 5.0 %. Overall, the Euro Score lost about 4.0 % quarter on quarter.

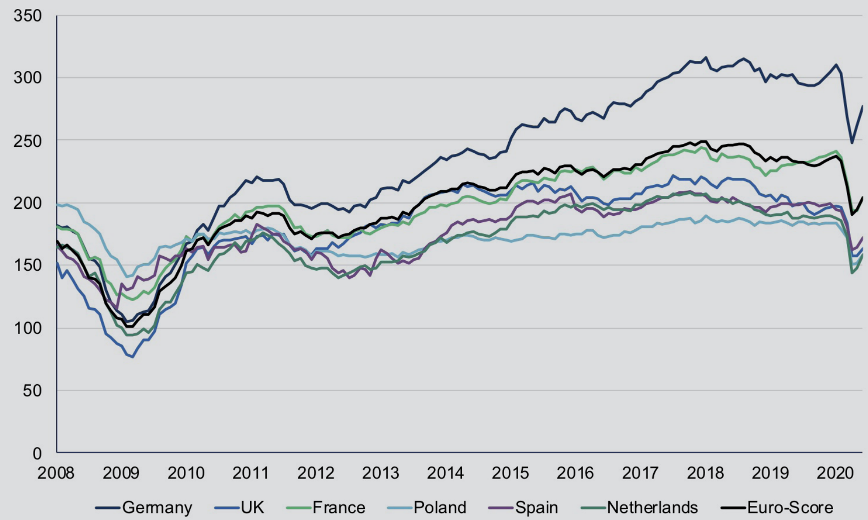
In retrospect, the huge impact of the coronavirus crisis on the REECOX Germany, which already occurred in March, turns out to have been premature. The German real estate sector was the only one of the real estate markets monitored by REECOX to close the second quarter with a gain (+3.4 %). While the decline in most of the other real estate markets was less sharp in the second quarter compared to the first, the negative trend intensified in the UK (Q1: -6.8 %, Q2: -11.0 %) and Poland (Q1: -6.7 %, Q2: -7.6 %) in the second quarter. In both cases, it should be borne in mind that the decline in the first quarter was below average because restrictions to fight the pandemic were put in place later in those countries. The United Kingdom has experienced the sharpest decline due to the impact of the pandemic since the start of the year, at 17.5 % (average -14.0 %).

DEUTSCHE HYPO REECOX-EYE



The Deutsche Hypo REECOX-Eye shows the current value of each real estate market compared to the others (length of iris) and the size of the respective investment market (breadth of iris).

Real estate economy until June 2020



REECOX POLAND SEES POSITIVE TREND AT THE END OF THE SECOND QUARTER

As in most markets monitored by REECOX, the weakness in the overall economy, which had been only slight up until then, did not show up until towards the end of the first quarter. A decline of 12 % was posted in April. The index stagnated in May and then gained 4.8 % in June. Overall, the second quarter fell by 7.6 % quarter on quarter, to stand at 158.6 points – a quarterly figure last seen in June 2013.

The stock markets showed positive tendencies on the whole in the second quarter. After a five-month decline, the WIG 20, Poland’s leading index, saw positive development across the board in the second quarter, gaining 16.3 % quarter on quarter to stand at about 1,758 points. The WIG Developers real estate share index also rose, posting a gain of 12.3 % for a positive result overall, despite the 3.5 % decline registered in May. At the end of the first quarter, the Polish business climate as measured by the Economic Sentiment Indicator (ESI) hardly showed any impact from the coronavirus pandemic. The indicator fell by half at the start of the second quarter, reaching 46.9 points in May, its lowest level since the start of this time series, back in 1991. Significant improvement ultimately came in June, when the index climbed to 57.6 points.

COMMENT ON THE MARKET

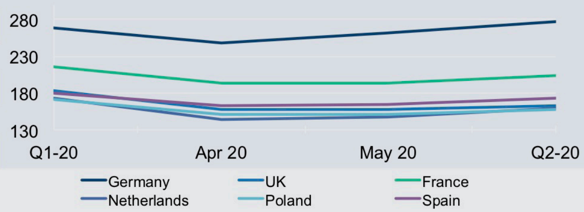
Beata Latoszek,
Managing Director
Office Warsaw

“After a sharp drop in the real estate market in March, increased activity was recorded again at the end of the second quarter. In the first half of 2020, revenue stood at € 3.5 billion, about 30 % above the same period of last year. Interest rates for deposits have fallen from 1.5 % p.a. to 0.2 % p.a. in the meantime. That has driven an outflow of about € 8 billion in assets. Savers are having to deal with high inflation, which is likely to be well over the official rate of 3.5 %. There is a lot of available liquidity that needs to be invested in material assets. Demand has kept real estate prices stable even amid the crisis. Residential properties in Warsaw are still attractive for international investors. The logistics market continues to boom. In many cities pedestrian areas are reviving as large shopping centres continue to suffer from the fact that many stores are closed. Hygiene is the main driver of consumer behaviour.”

“Demand has kept real estate prices stable even amid the crisis.”

Key figures of the real estate economies

Country	Change of input variables in Q2-20					Change of the real estate economy Q1-20 / Q2-20	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q1-20	Apr 20	May 20	Q2-20	Delta (%) Q1-20 / Q2-20
Germany	↑	↑	↓	→	↗		268	248	262	278	**3.4**
UK	↑	↗	↓	→	↘		183	157	158	163	**-11.0**
France	↑	↘	↓	→	→		216	194	194	204	**-5.2**
Netherlands	↑	↗	↓	→	→		173	144	148	159	**-8.1**
Poland	↑	↗	↓	↓	↓		172	151	151	159	**-7.6**
Spain	↗	↗	↓	→	→		181	163	164	173	**-4.6**



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